



The Characteristics Of A Good Franchise Agreement

Description

Franchising is one of those business phenomena that at first glance either looks like a very good or bad idea. It's mostly a matter of perspective. Perspective brought upon by past experiences or any available research sources. You can, though, pretty much guarantee a good franchise experience by seeking out a good franchise agreement.

But ensuring a good franchise means doing a bit of research and getting armed with a few facts on what you are looking for. To help you take the guesswork when seeking out franchisees, here are a few characteristics to look out for.

Affordable setup and fees

The initial cost of setting up a business will have a huge bearing on time to positive cash flow. Also, if you are borrowing these funds, they have a bearing on time to profitability due to interest. It's therefore prudent for business owners to minimize the cost of starting out, especially if they are looking to build a [lean start-up](#).

However, franchise owners have limited options when it comes to these costs. Most franchisors will have predetermined packages that require you to have particular equipment and set-up. Moreover, they'll stipulate where these have to be purchased from.

Understandably, this is important to maintain the same themes and cohesion in the Franchise. Unfortunately, this may translate to a lot of startup funding for your business. A good franchisor will always be invested in your success.

They'll seek to grow and profit from your growth and profitability, as opposed to reaping from your joining the franchise. To this end, they'll make sure:

1. their packages are exactly suited to your needs,

2. they have very reasonable minimum requirements,
3. they have small enough packages to cater for small business needs,
4. they use their buying power to negotiate very favourable rates for you.

All of this combined means the costs will be considerably low, oftentimes lower than if you were to try to get started on your own. With a good franchise and a good franchise agreement, you can start your business for less than the cost of doing it yourself.

Support and good communication

The next point -industry experience- wouldn't be of much value from a franchisor who doesn't communicate with you. A good franchise agreement makes a case for regular support and an open communication policy.

As part of your fee or a little extra where necessary, the franchise agreement should provide training courses.

These should be both for onboarding you and for keeping you abreast of industry developments. This allows small businesses to take advantage of the experience the franchisor has accumulated over time.

It also allows you to take advantage of the large industry network the franchisor enjoys. This is, after all, a great part of why you'd choose to franchise to begin with.

The best franchisors will take it a step further and have group training sessions. These help you and your employees gel with fellow franchisees, an important aspect of fostering the last point, community support.

Industry experience

New business, whatever industry you are in, can be daunting, tough, and an outright journey through misery. Some of the businesses you admire now made some of the darndest blunders in their early days.

But under a good franchise agreement, you need not suffer the same fate. As mentioned in the previous point, it has to make room for good support structures.

But this wouldn't be of much value if the franchisor is also trying to figure out their left from their right. When assessing industry experience, don't let time fool you. Age doesn't guarantee you wisdom.

Instead, go for milestones, culture and accolades. Look for a franchisor who has more or less achieved what you want for your business, under similar circumstances, and they are likely to be able to help you achieve the same.

Brand recognition

A brand recognised and associated with good qualities to be precise. Building a brand can be a tough endeavour for businesses. Building one with a loyal following, [associated with value](#), is a dream only a few recognise.

So it stands to reason that if you are going to pay to use someone else's name, it has to be a good one. Suffice it to say, every other point here is secondary to this one.

If you had one criterion for a good franchise agreement, it should be that it puts you under a good brand banner.

Marketing and co-marketing opportunities

Marketing is one of the biggest challenges for small businesses and is often sighted as one of the most common [reasons for small business failure](#).

Even [employing some free marketing tactics](#), getting your brand out there and driving business is a challenge. Businesses operating in a franchise should not have to worry about this though.

Before getting into any franchise agreement, make sure your franchisor can demonstrate what efforts they put into marketing their brand.

In addition, your franchise agreement should not only not prohibit you from marketing your own location but make some provisions for marketing support. You are after all marketing your franchisor's brand, they should be fully invested in your efforts.

Operational freedom

You know your kid is going to a good school if they can spice up a uniform item, just a little. It's not completely losing your mind and come in a different colour scenario, but a small statement. A little something to own the look.

In the same vein, a good franchise agreement should allow you a few degrees of freedom. That's not really to completely flip the script, because that would mean there's not much order to begin with.

But, a little deviation that allows clients to become endeared to your location and lets it take an identity of its own.

Even maternal twins manage to develop an individual character. And, every business needs to grow a character, even if it's a franchise with a hundred other twins.

Funding assistance

We have already touched on [why early funding can ruin your start-up](#) and [how to get started with little to no funding](#). For the franchisee, however, most of this sage advice, if we do say so ourselves may not be applicable.

Because you are expected to invest in particular assets and pay certain fees from the jump, you may need to be funded. A good franchise agreement makes up for this by giving you ideas on how to sustainably raise funds. This can include being affiliated with [organisations with a history of funding start-ups](#).

Good franchisors use their goodwill to sway funders to fund operations they deem likely to succeed. Because you develop an intimate understanding with your franchisor, this could be based on criteria the lender wouldn't consider otherwise.

Additionally, they make your pitches attractive by extending their buying power, giving you access to great economies of scale, and making the funding a higher return for the funder.

Even in a scenario where the franchisor has no such connections, other forms of assistance like capital planning and [business planning](#) come in handy.

Economies of scale

Franchisors have the ability to bring a lot more businesses under one roof than any other business. Regardless of how much freedom each franchisee is given to brand itself, they essentially represent the same entity.

This has huge implications for the franchise's ability to leverage purchasing power. The bargaining potential is unprecedented in any other business model.

A good franchise agreement should immediately make it clear how this God-like power is applied to benefit you. Additionally, be cautious of franchisors who sell you supplies at a markup.

They get at that lower price because of your existence in that chain, so why should you pay anything additional to it?

The long and the short; if there are no bulk buying benefits franchisees enjoy, the franchisor is either not business savvy or not sharing the benefits, and a good franchise agreement can never come from such a party.

Transparency

A franchise is essentially a partnership. Like every other partnership, it only thrives if every partner is aware of what is expected of them and what is to be expected from the other.

A good franchise agreement clearly outlines all the costs and expectations placed upon you as the franchisee. Additionally, it lets you clearly understand what you receive in return.

If the agreement uses a lot of vagueness and fine print, itâ€™ll likely cause you problems in the future. Every element should be a bold point, that is clearly explained and whose full implications are explained or can be explained.

At any rate, why would one partner with a party that wonâ€™t show all their cards?

Solid business model

Countless great ideas are lost to sloppy or poorly executed business models. A lot of dynamics go into coming up with a business model that brings your idea to life. This is exponentially complex in a franchise arrangement.

The model has to hold up for the franchise model and for the business itself. All these elements of a good franchise agreement should be balanced, in addition to the primary business making sense.

The business model has to be robust and flexible. If not, you run the risk of being stuck in a franchise agreement that benefits everyone else except you. Your franchisor should be readily able to demonstrate how your business remains sustainable under your unique changing circumstances.

But how do we know?

Well, like many out there, weâ€™re sceptical about franchises. A lot of times weâ€™d outright discourage our clients from franchising, because of the horror stories weâ€™d seen.

We did, however, get a project that through thorough research led us to a franchisor with agreements so good, our client was much better off than what weâ€™d come up with them doing the setup for themselves.

Weâ€™d like to know what joy youâ€™ve received from your franchise business that makes you believe it was a good idea. We are also interested in the nightmares you might have suffered for our next title on what to avoid in these agreements.

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